

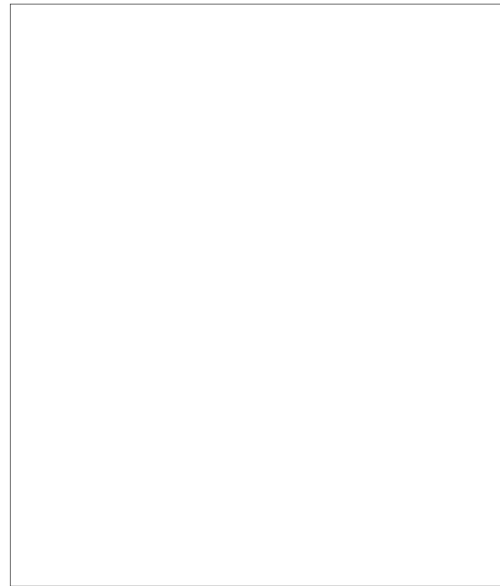
Sanitized Copy Approved for Release 2011/04/25 : CIA-RDP88G01117R000501350002-5

Meeting with Deputy Secretary of State

13 June 1986

Sanitized Copy Approved for Release 2011/04/25 : CIA-RDP88G01117R000501350002-5

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12 June 1986

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

SUBJECT: Meeting with Deputy Secretary of State Whitehead, 13 June 86

You are scheduled for a luncheon meeting with Deputy Secretary Whitehead, Mike Armacost and Mort Abramowitz tomorrow at 1215, in the DCI Dining Room. Clair George and Dick Kerr will also attend.

TAB A Leahy Letter to Shultz Proposing HPSCI/SSCI Public "Confirmation" of Evidence Supporting Counter-terrorist Actions by President. State wants to talk about how we would propose to handle the Leahy letter. There is a difference of opinion between OCA and GC. At Tab A you will find a memo from each office with suggested responses as well as a copy of the Leahy letter to Secretary Shultz.

TAB B Mexico. State would like to discuss the situation in Mexico. You may wish to bring up some of the points you suggested to Bob Vickers and [ ] yesterday. (Your memo is at Tab B. You will also find a memo from Vickers outlining the key points of a conference he chaired last week on behalf of Assistant Secretary Abrams which captures much of the current thinking on Mexico. Included is a cable on de la Madrid's 10 June television interview in which he covered the waterfront on problems facing Mexico.)

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TAB C     Substituting for Libyan Oil in Italian Refineries. Armacost asked Bob Gates Monday for an assessment of the cost to Italian refiners of switching from Libyan crude. (Armacost had discussed Italian imports of Libyan oil with both Craxi and Andreotti.) The DI prepared a memo for Armacost that was sent to him Tuesday. If the subject comes up, following are the memo's key points:

- Alternative crude are available and switching would be relatively easy from a technical standpoint.
- Switching would cost the Italians as much as \$50M the first year, however, both because of necessary equipment adjustments and the sizable Libyan discounts.
- Moreover, Italian refiners receive Libyan oil under barter and compensation agreements as well as through equity shares and they might have difficulty selling the Libyan oil they contracted for, if they switched.

At TAB C you will find a copy of the OGI memo with an attachment identifying substitutes for Libyan crude.

TAB D     Australian PM Hawke's Visit to China. Hawke apparently held quite a wide-ranging discussion with the Chinese leadership during his recent trip through East Asia. He told his aides that he had sufficient material to warrant a letter to Secretary Shultz outlining the discussions. Jim Hirsch wondered, given the tendency of the Chinese to couple joint US-PRC activities with broader political issues, if you would consider inquiring into the contents of the Hawke letter with Whitehead. (At Tab D, you will find the relevant section of the Hawke trip report cable from our embassy in Canberra.)

DCI/DDCI Executive Staff

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OCA 86-1945  
11 June 1986

NOTE FOR: DDCI


THROUGH: Dave Gries 

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FROM: 

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SUBJECT: Leahy Letter to Shultz Proposing HPSCI/SSCI Public "Confirmation" of Evidence Supporting Counter-terrorist Actions by President

 advises that at your regular meeting this Friday with Whitehead you will be asked for your views on how State should respond to Leahy's 20 May letter to Shultz (attached) on the above subject. Here are some suggested comments:

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- o Our primary objection is that it is not in USG's interest to engage in any "public" discussion of matters relating to intelligence sources and methods. To do so only leads to further speculation, additional digging by the press, and, inevitably, leaks.
- o The President's statements on the Libya raid grew out of a unique set of circumstances. He chose his words carefully and only after fully considering the pros and cons of making any public comment. Most importantly, he said nothing that was not already in the public domain (i.e., reported in the press).
- o It is highly doubtful that a public HPSCI/SSCI "confirmation" would have the desired effect. Those in the Congress, media, etc. who criticize a Presidential decision to act will probably not be mollified or deterred by a HPSCI/SSCI assurance, without elaboration, that the intelligence supported the action. They will still demand to know what the actual evidence was.
- o Finally, the proposal simply is not practical. What if HPSCI and SSCI reach different conclusions? What if there is no consensus inside the committees themselves? Controversy and confusion would reign, thereby increasing the pressure on all sides of the issue to comment further in order to justify their positions.

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Attachment 

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PATRICK LEAHY, VERMONT, VICE CHAIRMAN

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WILLIAM F. COHEN, MAINE  
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BILL BRADLEY, NEW JERSEY

# United States Senate

SELECT COMMITTEE ON INTELLIGENCE  
WASHINGTON, DC 20510

May 20, 1986

OCA FILE

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86- 2415X

The Honorable George Shultz  
The Secretary of State  
2201 C Street NW  
Washington, DC 20520

Dear George:

I would like to follow up on an idea you and I discussed following the Libya raid.

In making public information derived from sensitive intelligence sources to establish the connection between Colonel Khadafy and the terrorist bombing in West Berlin, the President was clearly within his authority. His self-evident purpose was to demonstrate conclusively to Congress, the American people, our allies and the entire world Colonel Khadafy's guilt.

At the same time, I am convinced there are other ways by which the credibility of such charges can be established without having to reveal, and thereby lose, vital intelligence sources. These very sources might have served to warn us of future terrorist attacks aimed at Americans. What is needed is a means independent of the Executive Branch which can publicly confirm the President's conclusions, but without having to reveal the intelligence upon which they are based.

In my view, this mutual goal of protecting intelligence sources and methods could be accomplished by having the House and Senate Intelligence Committees examine the intelligence in secrecy, assess it, and come to their own conclusions. Presumably, these will parallel those of the President. The leaders of these two Committees could then declare publicly that their assessment of the intelligence confirms the judgment of the President. Neither he nor the Intelligence Committees

The Honorable George Shultz  
Page 2  
May 20, 1986

would go any further in demonstrating the basis for their parallel conclusions. Joint confirmation by the President and the two Intelligence Committees should obviate any need to release intelligence information.

I would be happy to discuss this idea with you further should you wish.

Sincerely,



PATRICK LEAHY  
Vice Chairman

PL/j

Enclosure

bcc: The Honorable William Casey  
Director, Central Intelligence Agency  
Washington, DC 20505

**B**

~~SECRET~~ NOFORN  
The Director of Central Intelligence  
Washington, D.C. 20505

National Intelligence Council

NIC 02747-86  
6 June 1986

MEMORANDUM FOR: Director of Central Intelligence  
Deputy Director of Central Intelligence

FROM: Robert D. Vickers, Jr.  
National Intelligence Officer for Latin America

SUBJECT: Mexico

1. On 4 June 1986, I chaired a meeting between Assistant Secretary of State for Inter-American Affairs, Elliott Abrams, and various CIA experts to discuss political dynamics in Mexico. A full list of participants is attached.

2. After extensive discussion, the meeting reached the following conclusions:

- The Mexican government is concerned that its hard currency reserves will decline below acceptable levels unless it gets new debt relief within the next several months.
- At the same time, with living standards well below pre-1980 levels and after three years of austerity, President de la Madrid is reluctant to meet harsh IMF conditions for further belt-tightening.
- The government also faces state and local elections over most of Mexico during the next several months, and does not want to antagonize voters further.
- As a result, de la Madrid may well take a hard line against the IMF by breaking off negotiations on new austerity measures and declaring a moratorium on principal or interest payments.
- The Mexican government does not have a long-term game plan, but hopes that its action will stimulate the US government to intervene with the IMF and the banks and provide some form of debt relief, such as low rates and longer terms.

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5. Assistant Secretary Abrams was extremely pleased with the CIA briefings and the resulting discussions, and felt that he and his colleagues had a closer understanding of Mexican political dynamics and


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US policy options. The CIA analysts, for their part, gained a better knowledge of key policy issues and further intelligence research and production requirements on Mexico.

- I hope to hold further sessions of this type with State and NSC policymakers in the future, and I believe that other NIOs could usefully adopt this type of forum to enhance interchange between the policymakers and the Intelligence Community.



Robert D. Vickers, Jr.

Attachment:

List of Attendees  
Mexico Conference on Political Dynamics  
4 June 1986

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C O N F I D E N T I A L

LIMITED OFFICIAL USE MEXICO 12273

E.O. 12356: N/A  
TAGS: PREL, ECON, EFIN  
SUBJECT: TV INTERVIEW OF PRESIDENT DE LA MADRID CONTAINS  
NO MAJOR POLICY ANNOUNCEMENT

1. SUMMARY: IN A ONE HOUR TV PRESENTATION ON JUNE 10, IN A FORMAT REMINISCENT OF EDWARD R. MURROW'S PERSON TO PERSON PROGRAM, PRESIDENT DE LA MADRID GAVE A TOUR OF LOS PINOS AND FIELDLED QUESTIONS FROM TWO REPORTERS ON SUBJECTS RANGING FROM THE STATE OF THE ECONOMY TO NARCOTICS TO THE PRI AS A VIABLE INSTITUTION. ALMOST ALL WAS IN THE CONTEXT OF U.S.-MEXICAN RELATIONS, WHICH THE PRESIDENT CHARACTERIZED AS A PERMANENT PROCESS OF NEGOTIATIONS. NOTHING NEW OF SIGNIFICANCE EMERGED. COMMENT: IT HAD BEEN WIDELY ANTICIPATED THAT PRESIDENT DE LA MADRID WOULD USE THIS TV APPEARANCE TO ANNOUNCE A DRAMATIC CHANGE IN MEXICAN ECONOMIC AND FISCAL POLICY. THE FACT THAT THIS

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DID NOT HAPPEN MAY ALLAY FEARS THAT SUCH A CHANGE IS IMMINENT; HOWEVER, IT WILL NOT LIKELY DISPEL THOSE FEARS ALTOGETHER OR FOR VERY LONG IF THE CURRENT SITUATION PERSISTS. THE FORMAT OF THE TV PROGRAM APPARENTLY WAS DESIGNED TO ENHANCE THE IMAGE OF THE PRESIDENT, BUT IT IS DOUBTFUL THAT THE DESIRED RESULTS WERE ACHIEVED. END SUMMARY.

2. ACCOMPANIED BY GUILLERMO OCHOA CF "HOY MISMO" AND ANGEL TRINIDAD FERREIRA OF IMEVISION, PRESIDENT DE LA MADRID TOURED THE GROUNDS AND PUBLIC ROOMS OF LOS PINOS IN AN HOUR LONG TV PROGRAM PATTERNED AFTER THE EDWARD R. MURROW PERSON TO PERSON FORMAT.

3. IT WAS WIDELY ANTICIPATED THAT THE PRESIDENT WOULD USE THIS TV PRESENTATION TO ANNOUNCE SOME DRAMATIC CHANGE IN MEXICO'S ECONOMIC AND FISCAL POLICY. THIS WAS NOT THE CASE. INSTEAD HE TALKED ABOUT THE POSITION OF THE PRESIDENCY, HOW HE HOPED TO BE REMEMBERED, THE RESOURCES AND CHARACTERISTICS OF THE COUNTRY AND ITS PEOPLE, MEXICO'S CURRENT ECONOMIC SITUATION AND THE REASONS FOR IT, THE NARCOTICS PROBLEM, THE CONSTITUTION OF 1917, AND MEXICAN-U.S. RELATIONS. ALMOST EVERYTHING HE SAID, IN FACT, WAS IN THE CONTEXT OF MEXICAN-U.S. RELATIONS.

4. MEXICO-U.S. RELATIONS: DE LA MADRID SAID THAT MEXICO IS SOVEREIGN AND INDEPENDENT AND THAT IT MUST SEEK THE BEST POSSIBLE RELATIONS WITH THE UNITED STATES. HE CRITICIZED A CERTAIN UNSPECIFIED IDEOLOGICAL GROUP IN THE U.S. THAT THINKS MEXICO SHOULD BE JUST LIKE THE U.S. AT PRESENT, HE SAID, RELATIONS ARE DIFFICULT AND COMPLICATED, BUT WITH GOODWILL ON THE PART OF BOTH GOVERNMENTS WE CAN OVERCOME OUR DIFFERENCES AND CONFLICTS. WHILE ANY TWO COUNTRIES ARE NOT ALWAYS IN AGREEMENT, HE SAID, IT IS IMPORTANT THAT WE HAVE COME TO AGREEMENT ON MANY SUBJECTS. HE CHARACTERIZED THE RELATIONSHIP AS A PERMANENT PROCESS OF NEGOTIATION. MEXICO'S POSITION, HE CONCLUDED, IS THAT IT WANTS CORDIAL AND POSITIVE RELATIONS WITH THE U.S., BUT ALWAYS WITH THE CONDITION THAT THERE BE MUTUAL RESPECT AND DIGNITY.

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5. ON CENTRAL AMERICA AND U.S. RELATIONS: MEXICO'S POSITION ON CENTRAL AMERICA HAS BROUGHT FORTH PRESSURE FROM ULTRA-CONSERVATIVE GROUPS IN THE UNITED STATES. HOWEVER, MEXICO'S POSITION THERE IN FAVOR OF NEGOTIATION AND A PEACEFUL SOLUTION IS JUST. THE PROOF OF THIS IS THAT EVEN IN THE UNITED STATES THERE HAVE BEEN FREQUENT MANIFESTATIONS OF SUPPORT FOR MEXICO'S ROLE IN CONTADORA, INCLUDING UNANIMOUS RESOLUTIONS OF THE U.S. CONGRESS AND INDICATIONS OF SUPPORT FROM PRESIDENT REAGAN HIMSELF AS WELL AS FROM HIS OFFICIALS. WE HAVE NOT FELT DIRECTLY, DE LA MADRID SAID, ANY ECONOMIC REPRISALS FROM THE U.S. FOR OUR CENTRAL AMERICAN POLICY. HE ACKNOWLEDGED THAT WHILE SOME MEXICANS THINK THAT TO FOLLOW THE U.S. LINE ON CENTRAL AMERICA WOULD SURELY BRING THE COUNTRY THE MONEY IT NEEDS, HE DENOUNCED THIS AS A MERCANTILIST CONCEPT OF THE COUNTRY WHICH NO PRESIDENT OF MEXICO COULD ACCEPT. IN SHORT, HE AFFIRMED, THE PRESSURE OF THE DEBT PROBLEM WOULD NOT CHANGE MEXICO'S FOREIGN POLICY.

6. CURRENT ECONOMIC SITUATION: THE PRESIDENT CHARACTERIZED MEXICO'S CURRENT SITUATION AS A CRISIS WITHOUT PRECEDENCE, FOR REASONS BOTH INTERNAL AND INTERNATIONAL. THE FALL IN INTERNATIONAL OIL PRICES WAS CITED AS THE MAIN CULPRIT, BUT HE ALSO SAID THAT MEXICO NEEDS TO BALANCE ITS PUBLIC FINANCES, CHANGE THE STRUCTURE AND FORM OF ITS PRODUCTIVE ENGINE, DIVERSIFY AND MODERNIZE INDUSTRY, AND DIRECT PRODUCTION TOWARD EXPORTS. HE ADDED THAT MEXICO NEEDS TO DIVERSIFY ITS ECONOMIC TIES, PARTICULARLY INCREASING ITS TIES IN THE PACIFIC BASIN.

7. INTERNATIONAL DEBT: MEXICO WILL CONTINUE TO EXAMINE ITS OPTIONS REGARDING THE CONTINUING PAYMENT OF ITS  
C O N F I D E N T I A L

LIMITED OFFICIAL USE SECTION 02 OF 02 MEXICO 12273

E.O. 12356: N/A

TAGS: PREL, ECON, EFIN

SUBJECT: TV INTERVIEW OF PRESIDENT DE LA MADRID CONTAINS

INTERNATIONAL DEBT, THE PRESIDENT SAID. UNTIL NOW, HE

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CONTINUED, MEXICO HAS BEEN CAPABLE OF MEETING ITS DEBT OBLIGATIONS, BUT THIS HAS BEEN AFFECTED BY THE DROP IN OIL PRICES. MEXICO NEEDS TO RECOVER ITS CAPACITY FOR ECONOMIC GROWTH QUICKLY, HE ADDED, AND TO REDUCE ITS DEPENDENCY UPON OIL EXPORTS. HE ALSO STRESSED THAT MEXICO, UNLIKE OTHER COUNTRIES, USED THE FUNDS IT BORROWED (WHICH WERE LESS THAN THE AMOUNTS OFFERED) TO BUILD HOSPITALS, POWER PLANTS AND OTHER PRODUCTIVE AND WORTHWHILE PROJECTS.

8. FLIGHT CAPITAL: THE PRESIDENT SAID THE SO CALLED CAPITAL FLIGHT FROM MEXICO WAS MORE ACCURATELY DESCRIBED AS A MOVEMENT OF CAPITAL TO THE UNITED STATES, ATTRACTED FOR THE PAST FOUR OR FIVE YEARS BY HIGH INTEREST RATES AND AN OVERVALUED DOLLAR. THE ENORMOUS, UNCONTROLLABLE U.S. DEFICIT, HE NOTED, WAS DUE TO U.S. DEFENSE SPENDING.

9. PESO VALUATION: EARLY IN 1986 INCREASING INTEREST RATES IN MEXICO ATTRACTED A GROWING AMOUNT OF MONEY BACK TO MEXICO, THE PRESIDENT CLAIMED. THE RECENT RAPID DEVALUATION WAS DUE PRIMARILY TO SPECULATION, HE SAID, WHICH THE MARKET WILL ADJUST. HE COMPARED THE CURRENT PHENOMENON TO THAT FOLLOWING THE SEPTEMBER 1985 EARTHQUAKES, WHEN "MANY SPECULATORS LOST LOTS OF MONEY."

10. PLAN AZTECA: THE PRESIDENT SAID THAT THE GOM HAD EXAMINED THE ECONOMIC PROGRAMS OF ARGENTINA AND BRAZIL, AND FOUND THEM NOT APPLICABLE TO THE PRESENT CIRCUMSTANCES OF MEXICO. HE POINTEDLY SAID THERE IS AT PRESENT NO PLAN AZTECA FOR MEXICO. HE SAID MEXICO'S ECONOMIC PROGRAM STILL IS BASED ON ITS NATIONAL DEVELOPMENT PLAN, 1983-88.

11. NARCOTICS: DRUG USERS IN THE U.S. NUMBER SOME 25 MILLION AND ARE INCREASING, THE PRESIDENT NOTED. IT IS NORMAL FOR A COUNTRY TO LOOK ELSEWHERE FOR THE CAUSES OF ITS PROBLEMS, HE SUGGESTED. NEVERTHELESS, HE ADDED, THE PROBLEM OF NARCOTICS IS AN INTERNAL PROBLEM TO BE SOLVED BY COUNTRIES INTERNALLY, ALTHOUGH IN COOPERATION WITH EACH OTHER. HE DENIED THAT EDUARDO DE LA MADRID IS A COUSIN, BUT ADDED THAT, REGARDLESS, NO ONE IS ABOVE THE LAW. HE ALSO NOTED THAT DESPITE REQUESTS, NO EVIDENCE HAD BEEN

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PRESENTED BY THE USG TO SUBSTANTIATE RECENT CLAIMS OF  
CORRUPTION AMONG MEXICAN OFFICIALS.

12. CONSTITUTION OF 1917: ACCORDING TO PRESIDENT DE LA  
MADRID THE PRI, DESPITE THE NEED FOR RENOVATION AND  
MODERNIZATION, STILL EMBODIES THE SPIRIT OF THE  
CONSTITUTION OF 1917.

13. COMMENT: IF THIS TV PERFORMANCE WAS DESIGNED TO  
ENHANCE THE IMAGE OF PRESIDENT DE LA MADRID AS A STRONG,  
DECISIVE LEADER, IT SEEMS TO HAVE MISSED ITS MARK. HE DID  
NOT COME ACROSS AS A MAN WITH THE ANSWERS. (AT ONE POINT  
HE EVEN SAID THAT EVERYONE MAKES MISTAKES, IT IS THE  
BALANCE THAT COUNTS.) FOR MANY, IT MAY HAVE BEEN A RELIEF  
THAT THE WIDELY EXPECTED DRAMATIC CHANGE IN GOM  
ECONOMIC/FISCAL POLICY REGARDING DEBT REPAYMENT DID NOT  
MATERIALIZE. NEVERTHELESS, IT HAS NOT DISPELLED FEARS  
THAT SUCH AN ANNOUNCEMENT MAY NOT BE POSTPONED MUCH LONGER  
IF THE CURRENT ECONOMIC SITUATION CONTINUES TO  
DETERIORATE. IT IS INTERESTING TO NOTE THAT BETWEEN  
MONDAY AND TODAY, THE PESO STRENGTHENED FROM 730 TO 625.  
MANY BELIEVE THIS WAS DUE TO GOM INTERVENTION IN THE  
MARKET. (DRAFTED:POL:PSIEKERT/ECON:PPENNINGER) BUSBY

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Central Intelligence Agency

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Washington, D. C. 20505

MEMORANDUM FOR: Mr. Michael H. Armacost  
Under Secretary of State for  
Political Affairs

SUBJECT: Libyan Oil: Value to Italian Refiners

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Attached is the analysis you requested assessing constraints Italian refiners would face in switching from Libyan crude oil. We believe that alternative crudes are available and that switching would be relatively easy from a technical standpoint. The major discouragement is economic--specifically the costs to Italian refiners of walking away from Libyan price discounts and costs of adjustments necessary to accommodate other crudes.

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Richard Kerr  
Deputy Director for Intelligence

Attachment:  
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Libyan Oil: Value to Italian Refiners

From a technical standpoint, the main refineries in Italy that process Libyan crude could switch fairly easily to other crudes. These refineries have sophisticated equipment, including secondary refining facilities to handle and process a variety of types and qualities of crudes. Switching, however, would incur costs to the refiners because Libya offers sizable discounts on its more waxy crudes, and because some adjustments to equipment and processing would be required to produce the same products from different crudes. In our judgment, these costs--including the foregone discounts--could amount to as much as \$50 million in the first year. [REDACTED]

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Technical Considerations. Libyan crude can be divided into two general categories: a) light (high API gravity), low sulfur crudes such as Zueitina, Brega and Sirtica, and b) light, low sulfur, high pour point (waxy) crudes such as Bu Attifel, Amna and Sarir. The first group contains high quality crudes, but these require no special handling and are easy to replace with other crudes. [REDACTED]

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The waxy crudes require special handling facilities such as heated storage tanks, and secondary processing facilities such as catalytic crackers to further refine their residual components into usable products. The high paraffinic naphtha yield of these crudes is used to make petrochemicals. A number of high gravity, low sulfur crudes from the Atlantic Basin area could be substituted for waxy Libyan crudes to produce petrochemical feedstocks. We have identified substitutes for both categories of Libyan crude in Table 1. [REDACTED]

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We have also identified three main refineries in Italy that process Libyan crude oil (in Table 2). Each is modern and equipped to process many different crude oils. In general, the more sophisticated the refinery, the less expensive it is to switch crude feedstocks. At least two of the facilities are probably equipped to maximize output of naphtha and supply nearby petrochemical plants owned by the same companies. Several smaller Italian refineries also process Libyan crude from time to time. [REDACTED]

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Economic Considerations. Although technically feasible, switching to alternative crudes would entail some real and opportunity costs for Italian refiners. Waxy Libyan crudes are primarily attractive to Italian refiners because of the discounts--relative to other high gravity crudes--Libya offers to offset costs associated with their difficult handling characteristics. For example, Bu Attifel--AGIP's equity crude--reportedly is discounted by about \$1.00-1.50 per barrel, although contract details generally are not available. Besides lost

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discounts, the refiners would incur higher transportation costs associated with buying crude outside the Mediterranean (as much as \$0.25/barrel). In addition, there would be blending costs, adjustments to refinery equipment, and logistical, distribution and other costs (possibly \$0.10/barrel). Applied to the discounted Libyan crudes (about 100,000 b/d) these costs could total as much as \$50 million in the first year. [REDACTED]

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Italian refiners receive Libyan oil under barter and compensation agreements as well as through their equity shares. If the Italians ran alternative crudes through their refineries, they might have difficulty selling the Libyan oil they have contracted for under these arrangements. [REDACTED]

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SECRET [REDACTED]

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